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STATE FOR SCA/INS, EEB/ESC/TFS, ISN/CPI, AND NEA/IR  
TREASURY FOR LESLIE HULL

E.O. 12958: DECL: 03/18/2018

TAGS: [KTFN](#) [EFIN](#) [KNNP](#) [CE](#) [IR](#)

SUBJECT: SRI LANKA: CITIBANK BLOCKS SRI LANKAN AIRLINE  
TRANSACTION TO IRANIAN BANK MELLI

Classified By: Ambassador Robert O. Blake, Jr., reason 1.4 (d).

¶1. (SBU) Summary: Citibank Sri Lanka has blocked a \$250,000 transaction between Sri Lankan Airlines and Iranian Bank Melli, in accordance with Executive Order 13382 sanctions against Bank Melli. The blocked transaction was intended to pay for routine civil aviation overflight fees due to the government of Iran. Citibank alerted Embassy of the blocked transaction to ensure we were in a position to manage any criticism should the action become public. Citibank intends to assist its client, Sri Lankan Airlines, in filing an application to the U.S. Office of Foreign Assets Control seeking permission for the blocked funds to be returned to the airline. Embassy supports this step. While the Citibank action is not yet publicly known, it could easily become public quickly and could be used for political purposes to criticize the United States or Citibank. Action request: Embassy would appreciate Department clearance on proposed if-asked press guidance in para 7. End summary.

¶2. (SBU) Citibank's Sri Lanka branch office CEO Dennis Hussey informed Ambassador and EconOff March 18 that the bank had blocked a \$250,000 transaction originated by its client, Sri Lankan Airlines, to pay routine overflight fees to the government of Iran. Citibank's compliance software alerted the bank that the intended recipient of the transfer, Bank Melli, is sanctioned by the United States under Executive Order 13382, pertaining to weapons of mass destruction proliferation.

¶3. (SBU) Citibank will inform the U.S. Office of Foreign Assets Control (OFAC) of its action within the required ten-day period. Citibank is aware that OFAC guidelines do not prohibit commercial airlines from making overflight payments to Iran, and that the company whose funds were blocked can request OFAC to make an exception and allow the funds to be returned. Sri Lankan Airlines intends to file such a license request with OFAC; Citibank intends to assist the airline in this process. The airline used a Sri Lankan bank to conduct the transaction after Citibank could not do so.

¶4. (SBU) Currently, only Sri Lankan Airlines financial personnel and Citibank's lawyers are aware of the blocked transaction. According to Citibank, Sri Lankan Airlines has no interest in making the seizure a public issue. However, Citibank believes that it could easily become public quickly

if the airline reports the development to its senior management or later when outside auditors learn of it. Sri Lankan Airlines is 51% owned by the government of Sri Lanka. Its chairman and some board members are appointed by the president of Sri Lanka.

15. (C) Ambassador will brief Tourism Minister Milinda Moragoda -- Sri Lanka's point person for its growing relationship with Iran -- about the Citibank action, in order to ensure that it does not surprise the government and in the hope that the government will not make rash statements about the action. Citibank notes that Sri Lanka's Central Bank has had a fairly belligerent attitude toward Citibank lately, apparently as a result of not liking some of the advice Citibank has given regarding international borrowing the GSL is considering.

16. (C) Comment: This is exactly what Embassy has warned the GSL could happen as it increases trade and investment ties with Iran, although the precipitating transaction -- payment of overflight fees -- is a particularly prosaic one. Citibank and Embassy see potential for these developments to become public and to be used for political purposes to criticize U.S. sanctions against Iran and the bank for applying those sanctions. The government's objection to our recent human rights reports and its defensiveness regarding a tentative late April visit of Iranian president Ahmadinejad could make it tempting to use this action to criticize the United States or vilify Citibank.

17. (SBU) Action request: Post would appreciate Department clearance of the following suggested if-asked press guidance regarding Citibank blocking a Sri Lankan Airlines transaction with Bank Melli of Iran:

Question: Why did Citibank block a legitimate transaction by Sri Lankan Airlines to pay the government of Iran for routine overflight fees?

Answer:

-- Citibank blocked the transaction because it was required to do so by U.S. law, to comply with U.S. sanctions against Bank Melli of Iran.

-- Bank Melli is sanctioned under Executive Order 13382, which is aimed at proliferators of weapons of mass destruction and their supporters.

Question: Why did Citibank seize/freeze/impound Sri Lankan Airlines' funds, rather than simply rejecting the transaction and returning the funds?

Answer:

-- Executive Order 13382 requires U.S. financial institutions to block all property of sanctioned parties like Bank Melli. This means that a transaction destined for Bank Melli must be held, not returned to the originating party.

Question: Was this action taken because of U.S. disapproval of Sri Lanka's economic ties with Iran?

Answer:

-- No. Any transaction initiating from any company in any country in the world would be similarly blocked if it was conducted through a U.S. bank.

BLAKE